

FinTech Group

Banking joint venture with Austrian Post

FinTech Group (FTG) has announced a landmark 50/50 banking joint venture with Austrian Post (VIE: POST, market cap c €2.4bn) where FTG is supplying the technology while Post offers its established infrastructure. The deal creates a new growth arm for FTG that is expected to break even in 2022 and could act as a blueprint for similar deals in other countries. Meanwhile, H1 results were in line with expectations as margins benefited from strong growth in broking volumes. If FTG can meet its objective of generating €35m net income from the joint venture with Post by 2025, it would provide significant upside in the shares for the cost of the 7% dilution in the capital increase that has funded the deal.

H1 results: In line, transactions jump 20%

H1 results were broadly in line with management's expectations. Revenue rose by 18% to €58.5m while EBITDA jumped 42% to €18.4m. The growth was driven by the core Financial Services (FIN) segment, which saw its revenues rise 26% to €52.3m as its EBITDA margin soared by 620bp to 28.9%, reflecting operational gearing as transactions increase. The Technologies (TECH) segment dipped as the division continues to undergo heavy investment in new functionality.

A free ride to Austria

Both FTG and Post are investing €112.5m in the new joint venture. FTG is funding its investment with a €35m share placement with Post and transferring its interest in its Austrian flatex.at business at a €25m valuation. The remaining €52.5m is payable over 2020 to 2023 and is effectively fully funded as the joint venture will pay FTG at least €10m per year for the IT infrastructure. The joint venture has the use of Post's 433 post office branches as well as 1,351 postal partners; this infrastructure would have been impossible for FTG to establish on its own. Following the collapse of the arrangement with its previous financial services partner, BAWAG, Post conducted a 'beauty contest' for a new partner and stressed it wanted to hold an equity interest. After an extensive search, it selected FTG partly because it was the only company that could provide banking and technology.

Valuation: Attractive relative to peer group

The shares trade on 16.2x FY19e consensus earnings. We continue to believe this rating looks very attractive relative to its peer group (see page 4), given FTG's favourable growth profile along with improving margins, and with further significant upside potential from the banking joint venture with Post.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	95.0	30.6	0.73	0.0	39.0	N/A
12/17	107.0	32.1	1.00	0.0	28.5	N/A
12/18e	124.8	45.3	1.47	0.0	19.4	N/A
12/19e	141.3	54.7	1.76	0.0	16.2	N/A

Source: Bloomberg

Financial services

25 September 2018

Price €28.50

Market cap €499m

Share price graph



Share details

Code	FTK
Listing	Scale
Shares in issue	17.5m

Business description

FinTech Group is an integrated online brokerage business. It is divided into two business areas: a technology business and a financial services business that includes a bank and a brokerage business.

Bull

- Attractively valued against brokerage peer group.
- Favourable regulatory environment within Europe.
- Positioned to benefit from eventual upswing in interest rate cycle.

Bear

- Focused on the German and Austrian markets with limited geographical exposure.
- The company does not pay a dividend as the focus is on investing for growth.
- New joint venture will stretch management time in the near term.

Analyst

Richard Jeans +44 (0)20 3077 5700

tech@edisongroup.com

[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

H1 results: In line with management's expectations

Revenue rose 18% to €58.5m while EBITDA jumped by 42% to €18.4m, as the EBITDA margin jumped by 520bp to 31.5%. The growth was driven by the FIN segment, which saw its revenues rise 26% to €52.3m. This reflected the strong growth in transaction volumes, and the operational gearing fed through to the bottom line with the FIN division's EBITDA margin surging 620bp to 28.9%. The new partnership with Goldman Sachs is going well; FTG has nine product partners; the top five are Morgan Stanley, BNP Paribas, Goldman Sachs, UBS and Vontobel. The TECH segment dipped as the division continues to undergo heavy investment in the core banking system FTG:CBS and this will continue in H2.

Exhibit 1: H118 y-o-y analysis

				H117				H118
(€000s)	FIN	TECH	Other*	Total	FIN	TECH	Other*	Total
Revenues	41,414	17,844	(9,696)	49,562	52,256	16,378	(10,136)	58,498
Raw materials and consumables used	(12,660)	(3,315)	1,925	(14,050)	(14,060)	(1,834)	909	(14,985)
Personnel expenses	(7,464)	(6,465)	2,512	(11,417)	(8,578)	(6,205)	2,554	(12,229)
Other administrative expenses	(11,874)	(4,479)	5,259	(11,094)	(14,495)	(5,061)	6,673	(12,883)
EBITDA	9,416	3,584		13,001	15,123	3,277		18,402
Margins	22.7%	20.1%		26.2%	28.9%	20.0%		31.5%
Depreciation and amortization				(2,590)				(3,527)
EBIT				10,411				14,874
Financial results				(674)				(957)
EBT				9,737				13,917
Income tax expense				(2,699)				(4,442)
Earnings from continuing activities				7,038				9,475
Earnings from discontinued ops				(88)				(94)
Consolidated net profit				6,950				9,381

Source: FinTech Group. Note: *Other represents inter-divisional; TECH provides IT to the FIN segment.

The KPI data indicate that Q2 was a quieter period than Q1, with c 2.9m transactions versus c 3.7m in Q1. This was reflected in the transactions per customer, which fell from c 56 in Q1 to 48 for the whole of H1. Customer assets continued to grow nicely, but the primary focus for FTG is on driving transaction volumes as that is the biggest driver of profits.

Exhibit 2: Key performance indicators

	FY12	FY13	FY14	FY15	FY16	FY17	H117	H118	Change H/H %
Transactions executed	6,625,418	5,486,715	6,023,210	10,143,219	10,462,477	11,272,496	5,505,237	6,628,374	20.4
Number of retail customers	118,170	126,111	134,403	176,600	212,040	253,825	234,874	274,830	17.0
Transactions per customer per year	56.07	43.51	44.81	57.44	49.34	44.41	46.88	48.24	2.9
Customer assets under management (€m)	2,810	3,527	4,043	5,770	10,855	11,794	11,238	12,120	7.8
of which: securities account volume	2,272	2,795	3,236	4,784	9,512	10,910	10,310	11,166	8.3
of which: deposits account volume	538	732	807	986	1343	884	929	954	2.7

Source: FinTech Group

Gross commission income jumped 23% to €45.3m, helped by the introduction of new brokerage products, which are mainly exchange traded products. After deducting commission expenses, net commission income rose 20% to €33.0m. Gross interest income jumped 28% as the group's credit book continued to grow at pace, mainly relating to margin trading (60–70%) and factoring (25–30%). The credit book stood at c €195m at end June and yields c 4.5%. Meanwhile, provision of IT services dipped as the focus there remains on heavy investment.

Exhibit 3: Revenue by type (gross basis)

(€000s)	H117	H118	Change (%)
Commission income	36,711	45,303	23.4
Provision of IT services	7,164	6,337	(11.5)
Interest income	4,258	5,453	28.1
Other operating income	1,429	1,416	(0.9)
Total	49,562	58,509	18.1

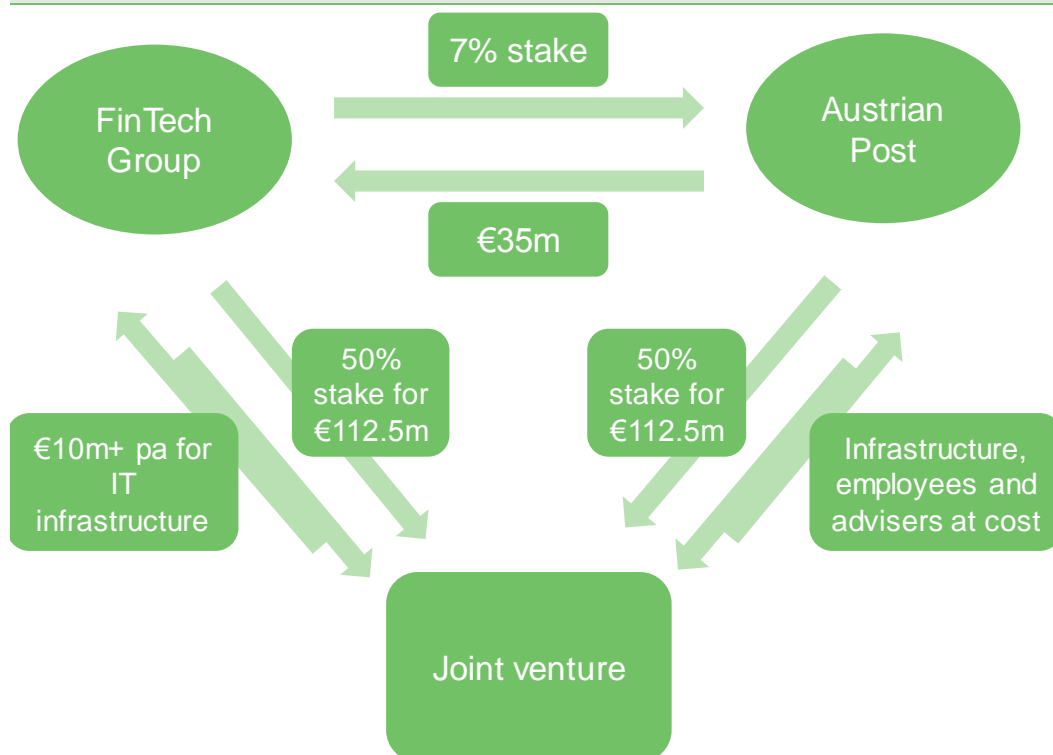
Source: FinTech Group

Landmark deal with Austrian Post (Österreichische Post)

BAWAG floated on the Vienna stock exchange in October 2017, raising €1.9bn in Austria's biggest ever listing. Prior to its IPO, BAWAG announced it planned to give notice to Post on their partnership, instead choosing to operate its own network of branches. BAWAG had been paying Post an annual fee (we understand around €60m) for the use of Austrian Post's infrastructure. The arrangement has been highly profitable for BAWAG (VIE: BG, market cap €4.1bn), generating revenues of €224.6m in FY17, for 40% profit margins (34% in FY16), and representing 43% of its total pre-tax profits in FY17.

Following the termination, Post conducted a 'beauty contest' for a new financial services partner. Post operates a highly profitable traditional post office business. However, this is a mature business, threatened by email, and management wants to diversify the group's income sources. Consequently, it wanted to hold an equity interest in a new financial services venture. Post selected FTG because FTG was the only one that could provide both banking and technology. The BAWAG relationship ends in December 2019, while the new joint venture is expected to begin trading in July 2019, pending the granting of the relevant banking licence. Given that FTG has operated a banking business in Austria for almost a decade and has had to file data with Austrian regulators, it believes this process will be a formality and a licence would be expected early next year. There will then be a pilot phase in c 50 branches, with basic banking functions.

Exhibit 4: Deal structure



Source: FinTech Group

Both FTG and Post are investing €112.5m in the new joint venture so that €225m equity will be provided by 2025. FTG is funding its investment with a €35m share placement with Post (1,225,761 new shares at c €28.55) and transferring its interest in flatex.at for a €25m valuation. The remaining €52.5m is payable over 2020 to 2023 and is effectively fully funded as the joint venture will pay FTG at least €10m per year for the IT infrastructure including the core banking system and operating IT system along with services. The amount could rise, depending on the level of services that are contracted. The joint venture has the use of Post's 433 post office branches as well as 1,351 postal partners. Post enjoys c 60m customer contacts per year, and after BAWAG stops offering its products in Post's c 1,750 branches and postal partners, many of its customers will have a strong

interest in becoming a customer of the new joint venture, especially in rural areas, since BAWAG has fewer than 100 of its own branches. FTG believes it can achieve revenues of €300 per customer and projects adding 250k customers in 2021 and 400k in 2025. It forecasts the joint venture will break even by 2022 and generate net profit of €35m in 2025.

Valuation: Attractive relative to peer group

The shares trade on 16.2x FY19e Bloomberg consensus earnings. This looks very attractive relative to peers; of its main European quoted peers, only Binckbank trades on a lower rating, but has been struggling with weaker margins and a slower growth profile. The new joint venture with Post adds extra upside potential, BAWAG's €4.1bn valuation suggests there could be significant upside because 43% of its profits came from the Post arrangement. However, we note the joint venture will also have to compete with BAWAG.

Exhibit 5: Peer group comparison

	Share price	Market cap		Revenue					Operating profit		Operating margin		PE (x)	PE (x)
	local curr	local curr	Curr	Year 0	Year 1	Year 2	CAGR	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2	
FinTech Group	28.50	499	EUR	107.0	124.8	141.3	14.9%	39.6	47.8	31.7%	33.8%	19.4	16.2	
Global B2C peers														
Avanza	413.4	12,515	SEK	965.0	1049.6	1187.6	10.9%	437.0	540.0	41.6%	45.5%	32.1	27.0	
Binckbank	5.45	368	EUR	149.0	147.0	150.0	0.3%	37.0	38.3	25.1%	25.5%	12.1	13.5	
Etrade	55.86	14,505	USD	2359.1	2859.1	3074.7	14.2%	1346.8	1453.5	47.1%	47.3%	15.6	13.9	
FinecoBank	11.41	6,942	EUR	580.2	640.6	705.1	10.2%	390.0	441.0	60.9%	62.5%	28.0	24.0	
Interactive Brokers *	58.84	24,437	USD	1609.6	1892.0	2208.0	17.1%	1723.0	1987.0	91.1%	90.0%	27.0	23.3	
Swissquote	70.3	1,078	CHF	187.5	217.8	240.2	13.2%	58.8	71.4	27.0%	29.7%	21.3	17.9	
Medians excl FinTech Group							12.1%			44.4%	46.4%	24.2	20.6	
European B2B peers														
CREALOGIX	142	197	CHF	87.1	110.0	121.0	17.9%	8.7	12.3	7.9%	10.2%	34.7	23.3	
First Derivatives	4020	1,044	GBp	179.6	212.7	238.8	15.3%	30.7	33.9	14.4%	14.2%	50.6	45.5	
GFT	12.58	331	EUR	414.7	418.0	439.3	2.9%	26.1	32.4	6.2%	7.4%	16.1	13.2	
Gresham Tech	162	110	GBp	21.7	24.6	27.6	12.8%	4.5	5.5	18.3%	19.9%	25.3	21.6	
Sopra Steria	139	2,856	EUR	3823.8	4093.3	4296.5	6.0%	284.5	337.0	7.0%	7.8%	13.3	11.4	
Temenos	159.5	11,301	CHF	728.8	843.4	949.8	14.2%	238.5	286.0	28.3%	30.1%	55.8	48.8	
Medians excl FinTech Group							13.5%			11.2%	12.2%	30.0	22.4	

Source: Bloomberg. Note: *EBITDA and EBITDA margins are shown in place of operating profits/margins. Priced at 20 September 2018.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Any information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c)(1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.